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C O N F I D E N T I A L SECTION 01 OF 02 DAMASCUS 002511

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TREASURY FOR GLASER/SZUBIN/LOEFLE

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TAGS: [ABLD](#) [AMGT](#)

SUBJECT: SYRIA'S RED HOT REAL ESTATE MARKET- A POTENTIAL  
VULNERABILITY

REF: A. DMS 0005

[1](#)B. DMS 0290

[1](#)C. 05 DMS 4977

Classified By: Charge d'Affaires Stephen Seche, reasons 1.4 b/d

This is a retransmission of DAMASCUS 02439 to include  
additional TAGS.

[1](#)1. (C) Summary: Contacts suggest that Syria may be experiencing a real estate bubble, with property prices rising rapidly throughout the country, but especially in Damascus and the surrounding area. Speculators increasingly are active in the market, with some Syrians trying to take advantage of an expected continuation of Gulf investment in real estate and the influx of Iraqis, which have increased pressure on an already tight supply of available property. While there is no indication that the bubble will burst any time soon, contacts say that a rapid devaluation in prices could have serious repercussions in some sectors of the economy that have speculated in the market, hitting industry and the nascent insurance companies particularly hard. End summary.

#### A Speculator's Market

[1](#)2. (C) Property prices in Damascus and throughout Syria have been rising steadily over the past three years, with high demand for a limited supply of property escalating possibly into a real estate bubble. The influx of hundreds of thousands of Iraqis since 2003 has been one of the primary sources of increased demand, with contacts reporting that property values in Damascus' poorer eastern suburbs have almost tripled. Other contacts contend that members of the elite with close ties to the regime, as well as many other Syrians who historically have held their wealth in Lebanese and other foreign banks, are adding to the demand for property by repatriating their assets and feeding them into real estate to protect them from future financial sanctions. Demand has increased most recently, contacts say, primarily due to Gulf investors who are seeking to spend their excess liquidity from high oil prices in real estate markets throughout the region. Syrians are buying real estate in anticipation of new project starts, due to the SARG's hyping of Gulf investment that began at the end of 2005 (ref A). At the same time, strict government control of land, which limits the expansion of existing communities, and the high cost of building supplies like cement, is stifling new construction (ref B).

13. (C) Contacts say that speculators are putting additional pressure on the market. Buyers are turning over properties rapidly, with one contact stating that a new buyer realized a 17% return in one month by reselling his new apartment with minimal upgrades. Business contacts report that they face increasing difficulties finding new office space, because prices for commercial property can rise as much as 10% in a week during negotiations. George Sayegh, General Manager of Bank of Syria and Overseas, stated that some industrialists have informed him they are choosing to invest their profits in real estate rather than reinvest them into their companies to take advantage of much higher expected returns. As a result, prices for real estate in Damascus and surrounding areas have increased an average of 40% since January 2006, contacts report, with values increasing by as much as 200% in select areas during the same time period.

#### High Prices Expected to Continue

14. (C) Most contacts do not expect a market correction for the foreseeable future. Contacts point out that prices in the rental market also are increasing at a rapid pace, which indicates that property is retaining its value. Basil Hamwi, General Manager of Bank Audi Syria, stated his belief that petrodollars from the Gulf should keep Damascus property values high until the cost of living in the Gulf catches up with the high cost of oil. Walid Abdel Nour, General Manager of Byblos Bank Syria, added that the market should continue to feed on the excess liquidity among domestic investors, who still have too few opportunities other than real estate in which to invest. Demand for real estate will remain high, he stated, until a credible market for SARG treasury bills, a functional stock market, and a more competitive private

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banking sector are established. Contacts state, however, that there are discrete events that could cause the bubble to burst. Iraqis beginning to exit the market would decrease the demand pressure immediately, contacts say. If Gulf investment dries up, Hamwi warned, the market may begin to unravel quickly, particularly if the hyped investment projects do not materialize.

#### Economic Consequences

15. (C) Abdul Kader Housrieh, a manager at Ernst & Young Syria, downplayed the potential economic consequences of a market correction, due to the fact that most Syrians still buy property with cash instead of loans, insulating the financial sector from the negative effects of a rapid devaluation in real estate prices. For his part, Hamwi commented that Bank Audi has only three real estate loans in its portfolio, and that the private banking sector as a whole has been very slow in extending credit to new projects. Other contacts, however, point out that a price crash could have severe repercussions in other, equally important sectors of the economy that are exposed to the market: industry and the nascent insurance sector. Industrialists, who traditionally self-finance their business projects and increasingly have been speculating in the market, would see immediate erosion in their available capital. The new private insurance companies, contacts report, are investing up to 25% of their liquidity in the real estate market because of the lack of other investment opportunities. A market crash, therefore, could undermine the development of this new and promising sector (ref C). In the meantime, the spike in real estate prices is deteriorating the standard of living for many Syrians, who no longer can afford housing in Damascus and other areas on incomes that have remained stagnant for the past several years. Families reportedly are selling their homes in Damascus to buy multiple, larger units in the less affluent suburbs to support their children's needs for housing.

17. (C) Comment: Contacts are uniform in admitting that the

real estate market is a source of economic vulnerability for the country, but that it still is too early to tell when or how the market may correct itself. It appears that prices are set to continue their rise for the time being, making some wealthy Syrians wealthier still, while limiting the economic opportunities for the vast majority.

SECHE